Webinar with Tax Professionals: January 25, 2018

Disclaimer: *Information in this document is based on the laws in effect when it was written. It does not supersede or alter any provision of Minnesota laws, administrative rules, court cases, or revenue notices. It does not provide tax advice.*

Introduction

Hello and thank you for joining us today. I'm Mark Krause, the Tax Professional Outreach Coordinator with the Income Tax and Withholding Division. I'm here today with Geoff Fournier, our Income Tax and Withholding Policy Specialist.

There are several other Minnesota Department of Revenue employees with me today who will be available to answer your questions.

Agenda

Today, we will walk through:

- The Minnesota tax schedules used to claim the new Minnesota tax provisions. We will focus on lines on the schedules that request information and provide you tips on where to find that information.
- The impacts of recent federal legislation on Minnesota income taxes for tax year 2017. We will not discuss, or answer questions relating to, potential impacts on Minnesota taxes for tax years 2018 or later.

Property Taxes Paid in 2017

Before we begin, we will address a topic on which we've received many questions.

On December 27, 2017, the IRS provided guidance regarding the deductibility of certain property taxes paid in 2017. The guidance stated the taxes must paid in 2017 and be assessed prior to 2018 in order for a deduction to be allowable on the 2017 federal income tax return.

In Minnesota, counties set the rates used to determine property taxes in January of the year those taxes are payable. Counties issue property taxes payable by March 31 of the year the taxes are payable.

If the IRS allows a deduction for real or personal property taxes paid in 2017 on your client's federal income tax return, we will allow the deduction on their Minnesota income tax return.

New Tax Law Materials

In August, we held a conference call with you to discuss legislation signed by Governor Dayton and how that affects Minnesota taxes. That call contained technical information on each provision. The script and Q&A from that call is available on our website. To get there, click on the orange “Tax Law Changes” button on our home page. Next, open the “Tax Professionals” drop-down menu. The script and Q&A material are the top two links.

As this page opened, your browser may have defaulted to having the “Individuals” menu open. You may also find information on a specific provision by clicking on the provision you are interested in learning more about.

New 2017 Minnesota Tax Forms

To get to our forms from our home page, click “Forms & Instructions” in the “For Individuals” section. This brings you to our 2017 income tax forms.

Legislation passed in 2017 that impacts Minnesota’s 2017 forms and schedules includes:

- A new credit for certain income taxes paid to Wisconsin
- New tax benefits for contributions to education savings accounts
- A new credit for student loan payments
- A new credit for teachers who complete a qualifying master’s degree
- New tax benefits to help first-time homebuyers
- A new subtraction for Social Security benefits

Schedule M1RCR, *Credit for Tax Paid to Wisconsin*

Clients use Schedule M1RCR to claim a credit for tax paid to Wisconsin. Part of the credit may be refundable if your client received any earned income while a Minnesota resident and that income was taxed by Wisconsin.

All filers who claim a credit for taxes paid to Wisconsin must complete this schedule, not Schedule M1CR, *Credit for Income Taxes Paid to Another State.* Many of the lines on Schedule M1RCR are similar to the lines on Schedule M1CR, *Credit for Income Tax Paid to Another State*. Make sure you complete the appropriate schedule.

On line 1 of Schedule M1RCR, enter your client’s income received as a Minnesota resident and taxed by Wisconsin. This includes earned and unearned income. To find this amount, you must first determine whether your client was a full-year or part-year Minnesota resident. Then, review line 32 of your client’s Wisconsin Form 1NPR, *Nonresident & Part-Year Resident Wisconsin Income Tax Return.*

Generally, for:

- Full-year Minnesota residents, enter the amount from line 32 on line 1 of Minnesota Schedule M1RCR.
- Part-year Minnesota residents, determine the amount from line 32 that your client received while a Minnesota resident. Enter that amount on line 1 of Schedule M1RCR.

Line 2 is your client’s federal Adjusted Gross Income (AGI) adjusted by interest from certain bonds. Complete this line the same way as line 2 of Schedule M1CR. We have a worksheet in the instructions for full-year residents. Part-year residents use amounts from Minnesota Schedule M1NR, *Nonresidents/Part-Year Residents.*

Line 4 finds your client’s Minnesota tax reduced by nonrefundable credits.

Line 6 is the amount of income tax your client paid to Wisconsin on income received while a Minnesota resident. First, determine if your client was a full-year or part-year Minnesota resident. Then, review line 59 of your client's Wisconsin Form 1NPR.

Generally for:

- Full-year Minnesota residents, enter the amount from line 59 on line 6 of Minnesota Schedule M1RCR.
- Part-year Minnesota residents, determine the amount from line 59 that your client paid on income received as a Minnesota resident. Enter that amount on line 6 of Schedule M1RCR.

Line 7 is your client's nonrefundable credit for taxes paid to Wisconsin. Include this amount on line 17 of Form M1.

Beginning on line 8, you will calculate the refundable portion of this credit. This line reduces your client's net income taxes by the amount of nonrefundable credit for which your client is eligible. For clients whose Wisconsin tax is less than their Minnesota tax on the same income, line 8 will be $0.

Line 9 asks for your client's earned income received while a Minnesota resident that is also taxed by Wisconsin. On Wisconsin Schedule 1NPR, this income is reported on lines such as 1 and 6.

Line 11 is your client's refundable credit for taxes paid to Wisconsin. Report this amount on line 5 of Schedule M1REF, *Refundable Credits.*

Schedule M1529, *Education Savings Account Contribution Credit or Subtraction*

Beginning with tax year 2017, clients who contribute to an education savings account, commonly referred to as a Section 529 account, may qualify for a nonrefundable credit or income subtraction.

Your client may claim only one of these benefits on their return. Beginning with tax year 2018, there will be a recapture tax in the event of a nonqualified distribution from an account for which your client is an owner or beneficiary, or to which they made contributions and claimed a Minnesota credit or subtraction.

I want to highlight a provision of the Tax Cuts and Jobs Act (TCJA) that affects this credit and subtraction. The act allows distributions to be used for certain elementary and secondary expenses. However, Minnesota does not currently allow distributions from education savings accounts to be used for these expenses. This means clients who claim the credit or subtraction may be subject to a recapture tax on these distributions.

Line 1 of Schedule M1529 asks for information on the accounts your clients contributed to, and for the contribution amounts. There is space on the form to report contributions to up to 10 accounts. If clients contributed to more than 10 accounts, include a list with information on these additional accounts with their returns. For each account, include the trustee, account number, and contribution amount. You will need to obtain information for this line from your client's records.

Include contributions your client made on or before December 31, 2017.

The account does not need to be a Minnesota-sponsored 529 account, and the beneficiary on the account does not need to be the contributor's dependent.

Line 2 asks for distributions from accounts on which your client is an owner or beneficiary, or to which your client made a contribution. This line should include all qualified and nonqualified distributions.

Line 3 is your client's contributions reduced by any distributions required to be on line 2. This is the amount available for the subtraction or credit. Again, clients can claim either the credit or subtraction, but not both. We included instructions to help clients determine which would benefit them more.

Line 4 is completed only by filers who are claiming the new subtraction. There is a worksheet in the instructions for this line. The worksheet serves to confine the subtraction to the limits within statute. These limits are $3,000 for married couples filing a joint return and $1,500 for all others. Report the amount from line 4 on Schedule M1M, *Income Additions and Subtractions,* line 39.

Clients who were not Minnesota residents at any time during the tax year are eligible for the subtraction, but not the credit.

Line 5 is your client's credit amount. The maximum credit amount is $500 regardless of filing status. The maximum credit amount phases out as AGI exceeds $75,000 for all filing statuses. There is a worksheet in the instructions to compute this phase-out. Full-year residents will report the credit amount on Schedule M1C, *Nonrefundable Credits,* line 7. They should not complete line 6 of this schedule.

Line 6 is for part-year residents who made contributions. To complete line 6, multiply the amount on line 5 by the percentage from line 25 of your client's Schedule M1NR. Enter the result on line 6, and on Schedule M1C, line 7.

Schedule M1SLC, *Student Loan Credit*

Schedule M1SLC, *Student Loan Credit*, is a new, nonrefundable credit available to full-year or part-year residents who are making payments on loans used to finance their post-secondary education. For married couples who file a joint return, each spouse may be eligible for the credit.

Line 1 of this schedule asks for your client's payments on loans used to pay for their post-secondary education. For married couples filing a joint return, include payments the couple make towards each spouse's student loans in the column for the spouse whose education was paid for with the loan.

To be includable on line 1, your client must be the one making the payment and the one for whose education the loan was used. They do not need to be the one who took out the loan. This means parents making payments on their child's loans do not qualify, even if the child was a dependent when the loan was originated. Payments the student makes toward PLUS loans may be included in line 1.

Line 2 asks for AGI. For married couples filing a joint return, enter the joint AGI in each column.

Line 6 asks for earned income. For married couples filing a joint return, each spouse should enter their own earned income in the appropriate column.

Line 7 asks for the total amount of student loans taken out to finance your client's post-secondary education. This includes loans taken out at any time to pay for their post-secondary education, even if that loan was paid off before 2017 or for which payments are not yet due. For married couples filing a joint return, this line will be different for each spouse.

To obtain this information, your clients should contact their lender or review loan origination documents. We have heard concerns from many tax professionals about obtaining the information. We recommend getting as accurate a result as possible, but recognizing this may not substantially impact your client's credit amount.

Line 9 asks for the amount of interest your client paid on loans used to pay for their post-secondary education. For married couples filing a joint return, this line should be different for each spouse.

Line 13 is the credit amount for each client. Full year residents report this amount on line 14.

To calculate line 14, part-year residents must apportion the amount on line 13 based on the amount of their income taxable to Minnesota. For married couples filing a joint return, this requires each spouse to complete a separate Schedule M1NR using only their amounts on the applicable lines. Those separate Schedules M1NR will not be used for any other part of the return and do not need to be filed; however, your clients should keep copies of them with their return. If one spouse was a full-year resident, enter the amount from line 13 on line 14 in the appropriate column.

Line 15 is the total credit allowable on the return. For married couples filing a joint return, this is the sum of the amounts on line 14. Enter this amount on Schedule M1C, line 9.

Schedule M1CMD, *Credit for Attaining Master's Degree in Teacher's Licensure Field*

A new, nonrefundable credit for tax year 2017 is available to teachers who meet certain qualifications and complete a qualifying degree during the year.

Qualifications for a qualifying degree include:

- The degree program must have been started after June 30, 2017.
- It cannot contain a pedagogy component. "Pedagogy" is the method and practice of teaching.

There are additional qualifiers for the program. Please see the Tax Law Changes webpage, the August conference call script, or the Q&A document for more details.

The heading asks for information about the teacher's Minnesota license, such as the function description, student grade level, and license number. You can find this information on the Minnesota Department of Education's website at http://education.state.mn.us. Select the drop-down menu labeled "licensing," and then "Educator license lookup." Next, click "Access the Educator license lookup." The results for your client will show the function description, student level, and license number. The license number will be shown as the "file folder number" on the results page.

Line 1 of Schedule M1CMD asks for the amount of tuition, and the costs of required books, and instructional material for the degree program. This amount will include amounts reported on a federal Form 1098-T.

Lines 2 and 3 ask for scholarships and employer reimbursements your client received to pay or reimburse amounts included on line 1. These lines should include all scholarships and reimbursements received while enrolled in the program. This includes amounts reported on a Form 1098-T and federal Form W-2.

Line 6 is your client's credit amount. This amount is the lesser of $2,500 or the total amount they paid for the degree program reduced by scholarships and reimbursements included on lines 2 and 3. For full-year residents, report this amount on line 8 of Schedule M1C.

Lines 7 and 8 are for nonresidents and part-year residents. Enter the percentage from their Schedule M1NR on line 7, then multiply the credit amount on line 6 by this percentage to calculate line 8. Report the amount from line 8 on Schedule M1C.

Schedule M1HOME, *First-Time Homebuyer Savings Account*

A new subtraction is available to clients who establish and designate a savings account as a first-time homebuyer account. Clients who have and designate more than one account must file a separate Schedule M1HOME for every account.

Account owners must designate a beneficiary. The beneficiary can be the account owner or another individual. The beneficiary, and spouse if married, must not have had ownership interest in a residence within the last three years.

The heading asks for information about the account, including the bank name, date the account was opened, account number, end of year balance, qualified beneficiary, and the date the qualified beneficiary was named. For clients who established an account at credit union, enter the name of the credit union and the number assigned to the account for the bank name and account number. Obtain this information from your client's records.

The second section of the heading asks for information about withdrawals from the account. We are asking for the dates of withdrawal, amount withdrawn, and the purpose of the withdrawal. The purpose of the withdrawal will help when determining lines 2 and 3. Include all qualified and nonqualified distributions on the account in this section.

Line 1 asks for the contributions made in 2017. Obtain this information from your client's records.

Line 2 asks for the amount of qualified distributions made during the year. This will be the amounts listed in the withdrawals section of the heading that were used for qualified expenses, such as a first-time homebuyer's down payment, closing costs, and cost of construction.

Line 3 is the nonqualified withdrawals from the account. To find this amount, reduce the withdrawals that were included (or should have been included in the heading) by the amount on line 2.

Line 4 is the interest earned on the savings account in 2017. Also include this amount on Schedule M1M, line 41.

Line 5 calculates the addition for nonqualified withdrawals. Only report the portion of the nonqualified withdrawal that exceeds contributions to the account. Also, include this amount on Schedule M1M, line 14.

Line 6 is the recapture tax resulting from nonqualified withdrawals. This amount is 10% of the amount on line 5 and is also reported on line 14 of Form M1.

Social Security Benefit Subtraction

Clients will report the subtraction on line 40 of Schedule M1M, *Income Additions and Subtractions*. The information needed for the subtraction is available on your client's federal return. The maximum subtraction amount is based on your client's filing status and is reduced as provisional income exceeds certain amounts. We have a worksheet in the instructions that walks through this calculation. The maximum subtractions are $4,500 for married couples filing a joint return, $3,500 for non-married clients, and $2,250 for married individuals filing separate returns.

Tax Year 2017 Federal Adjustments

As in years past, new federal laws enacted were effective retroactively. These acts include the Disaster Tax Relief and Airport and Airway Extension Act (Disaster Tax Relief Act) enacted on September 29, 2017 and the Tax Cuts and Jobs Act (TCJA) enacted on December 22, 2017. These federal acts both contained provisions effective for tax year 2017. Because Minnesota tax laws do not recognize these laws, use Schedule M1NC, *Federal Adjustments*, to calculate the differences between federal and Minnesota tax laws.

Lines 1 and 2 of this schedule are used to calculate differences between federal and Minnesota laws relating to bonus depreciation. Since tax year 2002, Minnesota has required taxpayers to add to Minnesota income 80% of the federal bonus depreciation they claimed on their federal return.

We still require a Minnesota addition for a portion of the claimed federal bonus depreciation; however, changes in the TCJA modified the amount of allowable federal bonus depreciation for assets placed in service after September 27, 2017. These changes include broadening the definition of “qualified property” and allowing federal bonus depreciation on the full cost of the asset.

The qualified property change allows federal bonus depreciation to be claimed on used property, and for qualified film, television, and theatrical expenses. Clients who claim federal bonus depreciation on these items must include the full amount of federal bonus depreciation claimed for these items on line 1.

For these assets, determine the appropriate cost recovery period and method, and then figure out what your client’s depreciation would have been if federal bonus depreciation had not been claimed. Include that amount on line 2.

Do not include the federal bonus depreciation claimed on these assets in the calculation of Schedule M1M, line 5.

The other change allows taxpayers to claim federal bonus depreciation in excess of 50% of their cost in the asset. Clients who take advantage of this provision will need to include the amount of federal bonus depreciation claimed that exceeds 50% of their basis in the asset on line 1.

Of this amount, determine the appropriate cost recovery period and method. Then, figure out what your client’s depreciation would have been if that amount of federal bonus depreciation had not been claimed. Include that amount on line 2.

For the federal bonus depreciation claimed and not added back on line 1 of Schedule M1NC, clients must add back 80% of that amount on Schedule M1M, line 5.

> **Worksheet for Schedule M1M, line 5 – Federal bonus depreciation addition**: We have updated this worksheet to include references to Schedule M1NC. The first change is a note at the top of the worksheet. If your client took advantage of one of the special federal bonus depreciation provisions available for assets placed in service after September 27, 2017, complete Schedule M1NC before Schedule M1M, line 5.

> The second change is on step 3 of the worksheet. Prior to the TCJA, step 3 was a computation line finding the sum of your client's federal bonus depreciation from federal Form 4562, and bonus depreciation amounts passed through as a partner in a partnership or a shareholder in an S-Corporation. After the TCJA, step 3 is still that sum, but it is also reduced by the amount on Schedule M1NC, line 1.

Let's continue our discussion on Schedule M1NC.

Line 7 of this schedule is used to calculate a difference in certain IRA distributions that can be excluded from federal income under a provision in the Disaster Tax Relief Act. The provisions extended recontribution and income recognition periods. To use that provision, your client's primary residence must have been in the Hurricane Harvey, Irma, or Maria hurricane zone on the date of the hurricane. Therefore, full-year Minnesota residents should not enter an amount on this line. Those who took advantage of this provision must enter the distributions from their account that would have been included in income but for this special provision.

Line 10 will be used to calculate a difference in the federal and Minnesota deductibility of medical and dental expenses under a provision in the TCJA, and to report any changes in the deductibility of itemized deductions calculated using AGI.

Medical and Dental Expenses: A provision in the TCJA allows taxpayers to deduct their medical and dental expenses that exceed 7.5% of their AGI. For Minnesota purposes, these expenses are deductible to the extent they exceed 10% of AGI. You must include the difference in deductibility on line 10. We anticipate this difference will affect many clients.

The change in deductibility of medical and dental expenses also affects a couple other Minnesota schedules.

> **Schedule M1LTI**: We updated Schedule M1LTI, *Long-Term Care Insurance Credit.* We updated line 3 to provide the calculation for deductible medical and dental expenses assuming the 10% deduction floor.
>
> **Schedule M1MT**: We also updated Schedule M1MT, *Alternative Minimum Tax.* For the Minnesota AMT, medical and dental expenses are deductible to the extent the exceed 10% of your client's AGI. We updated line 9 to direct clients to the instructions if they have federally deductible medical and dental expenses. The instructions contain a worksheet to calculate the amount to put on this line rather than pulling a value from federal Schedule A.

Let's return to Schedule M1NC.

Other Itemized Deductions: Other itemized deductions are calculated using AGI. Clients must recalculate their deduction and include the difference on line 10 if they entered an amount on line 9 of this schedule and have either federally deductible miscellaneous itemized deduction or a non-hurricane connected casualty loss. There are instructions for recalculating these amounts.

Line 11 is for clients who claim a federal hurricane-connected casualty loss. The Disaster Tax Relief Act allows clients who suffer a casualty loss in a hurricane zone to claim a deduction that exceeds what would be allowable if the loss did not occur in the hurricane zone. This includes disregarding certain reductions to the loss and the requirement to itemize to deduct the loss.

There are two worksheets in the instructions to calculate the amount for line 11. One worksheet is for impacted clients who claimed the standard deduction, and the other is for impacted clients who itemized their deductions.

Line 12 of this schedule is used to report a difference in charitable deduction from the Disaster Tax Relief Act. A provision in that act allows clients' to deduct contributions made to certain organizations for hurricane relief efforts to be deducted without regard to limitations based on a percentage of AGI. If your client took advantage of this provision, calculate the allowable charitable deduction including these limitations, and report the difference on line 12.

Line 14 of this schedule is for clients who entered an amount on line 9 of this schedule and had their federal charitable contribution deduction limited. Charitable contribution deductions are limited to a percentage of contribution base, which includes the amount on line 9. Because there are different limitations based on the contributed asset, and type of organization contributed to, review IRS Publication 526 to determine the appropriate limits that apply.

Schedule M1NC concludes with line 15. If line 13 on Schedule M1NC is more than the amount on line 14, report the amount on line 15 on Schedule M1M, line 16. If line 14 of Schedule M1NC is more than the amount on line 13, report the amount on line 15 as a positive number on line 43 on Schedule M1M.

Closing

Thank you for joining us today.

Today we provided you information on how to complete the new 2017 Minnesota schedules. Much of the necessary information is in your clients' records. As such, we encourage you to remind your clients to keep documentation showing this information. We may ask to review it.

We want to thank you in advance for a successful upcoming filing season. We appreciate your continued support and the job that you do helping taxpayers file their returns. We look forward to working with you during the filing season.

Contact information for questions you have is available on our webpage. You can also contact us at 651-296-3781 or toll-free at 1-800-652-9094.